

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Sully Buttes Telephone Cooperative, Inc.)
And U S WEST Communications, Inc.)
)
Joint Petition for Waiver of the Definition)
of "Study Area" Contained in Part 36,) AAD-
Appendix--Glossary of the Commission's)
Rules;)
)
Petition for Waiver of Section 61.41(c) and)
(d) and 69.3(e)(11) of the Commission's Rules)

CC: 96-45

JOINT PETITION FOR EXPEDITED WAIVERS

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June 2, 2000

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SUMMARY

U S WEST Communications, Inc. ("U S WEST") has agreed to sell its Sisseton, South Dakota exchange to Sully Buttes Telephone Cooperative, Inc. ("Sully Buttes"). This exchange serves approximately 2,400 access lines. By this Joint Petition for Expedited Waivers ("Petition"), U S WEST seeks a waiver to delete the Sisseton exchange from its South Dakota study area and Sully Buttes seeks a waiver to add this exchange to its existing South Dakota study area. Additionally, Sully Buttes seeks a waiver of the Federal Communications Commission's ("Commission") Rule 61.41(c) so that it may be regulated under rate of return once it acquires this exchange from U S WEST. A waiver of Section 69.3(e)(11), if necessary, and as appropriate, is also requested in order to allow Sully Buttes to utilize the National Exchange Carrier Association as its tariff pool administrator.

U S WEST and Sully Buttes respectfully request that the Commission expeditiously review and approve this Petition. This Petition raises no new issues of law, is supported by Commission precedent, and the facts involved in this Petition clearly demonstrate that the public interest will be served by an expeditious grant.

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JOINT PETITION FOR EXPEDITED WAIVERS

I. INTRODUCTION

U S WEST Communications, Inc. ("U S WEST") has agreed to sell its Sisseton, South Dakota exchange to Sully Buttes Telephone Cooperative, Inc. ("Sully Buttes").¹ This exchange serves approximately 2,400 access lines. By this Joint Petition for Expedited Waivers ("Petition"), U S WEST seeks a waiver to delete the Sisseton exchange from its South Dakota study area. Sully Buttes seeks a waiver to add this exchange to its existing South Dakota study area. Additionally, Sully Buttes seeks a waiver of the Commission's Rule 61.41(c)² so that

¹ On May 8, 2000, U S WEST filed a Section 63.71 Application requesting that the Federal Communications Commission ("Commission") certify that U S WEST may transfer the responsibility for providing interstate services in the Sisseton exchange to Venture Communications, Inc. ("Venture"), a wholly-owned subsidiary of Sully Buttes Telephone Cooperative, Inc. However, all of Venture's local exchange carrier ("LEC") operations have been consolidated into Sully Buttes.

² See 47 U.S.C. § 61.41(c).

it may be regulated under rate of return once it acquires this exchange from U S WEST.

The Commission should move expeditiously to review and approve this Petition. This Petition raises no new issues of law, and the facts involved in this Petition are similar to those involved in similar waiver requests that have been recently approved.³

II. WAIVER OF THE PRICE CAP RULE'S "ALL OR NOTHING" REQUIREMENT AND "PERMANENT CHOICE" RULE IS IN THE PUBLIC INTEREST AND SHOULD BE GRANTED

The Commission's rules establish two primary regulatory regimes for the provision of interstate exchange access by LECs -- rate of return⁴ and price caps.⁵ Further, the Commission's price cap rules require that any non-average schedule company, when purchasing a price cap company or a portion of a price cap company,

³ See, e.g., In the Matter of Petition for Waivers Filed by Union Telephone Company, Inc. and U S WEST Communications, Inc. Concerning Section 61.41(c)(2) and 69.3(e)(11) and the Definition of "Study Area" Contained in the Part 36 Appendix-Glossary of the Commission's Rules, Memorandum Opinion and Order, 12 FCC Rcd. 1840 (1997); In the Matter of Petitions for Waivers Filed by Alpine Communications, L.C., Butler-Bremer Mutual Telephone Company, Clarksville Telephone Company, Dumont Telephone Company, Grand River Mutual Telephone Corporation, Heartland Corporation, South Central Communications, Inc., Universal Communications, Inc., and U S WEST Communications, Inc. Concerning Sections 61.41(c)(2), 69.3(e)(11), 69.3(i)(4), 69.605(c) and the Definition of "Study Area" Contained in the Part 36 Appendix-Glossary of the Commission's Rules, Memorandum Opinion and Order, 12 FCC Rcd. 2367 (1997).

⁴ See generally 47 C.F.R. §§ 61.38 and 61.39.

⁵ See generally 47 C.F.R. § 61.41. A third method of interstate regulation of LEC's exchange access services, "optional incentive regulation," also is provided for within the Commission's Rules. See 47 CFR § 61.50. However, these rules are not at issue herein.

must then be subject to price caps.⁶ Moreover, the Commission's rules require that a company, once it has elected price caps, must continue under price caps.⁷ In the instant case, and in the absence of the requested waiver, Sully Buttes, a non-average schedule company, would be subject to interstate price cap regulation for its provision of exchange access because U S WEST is currently a price cap company.⁸ As demonstrated below, application of the "All or Nothing" rule and, subsequently, the "Permanent Choice" rule to Sully Buttes would be inconsistent with the public interest. Accordingly, waiver of these rules, as they may be applied to Sully Buttes, is justified.⁹

The Commission's decision to substitute price cap regulation for rate of return regulation was based on several factors and several presumptions. As a result, mandatory price cap regulation was applied only to the largest LECs in the

⁶ See 47 C.F.R. § 61.41(c)(2) and (3). This Rule provision is also known as the "All or Nothing" rule.

⁷ See 47 C.F.R. § 61.41(d). This Rule provision is also known as the "Permanent Choice" rule.

⁸ The Commission can take official notice of this fact as several similar petitions involving U S WEST have previously been granted. See In the Matter of Petition for Waivers Filed by East Plains Telecom, Inc., Fort Randall Telephone Company, U S WEST Communications, Inc., and Vivian Telephone Company Concerning Sections 69.3(e)(11), 69.3(i)(4), and the Definition of "Study Area" Contained in the Part 36 Appendix-Glossary of the Commission's Rules, Memorandum Opinion and Order, 12 FCC Rcd. 21525 (1997); In the Matter of Petition for Waivers Filed by Northland Telephone Company d/b/a PTI Communications, Inc. and U S WEST Communications, Inc. Concerning Sections 61.41(c)(2), 69(e)(6) and the Definition of "Study Area" Contained in the Part 36 Appendix-Glossary of the Commission's Rules, Memorandum Opinion and Order, 12 FCC Rcd. 13329 (1997).

⁹ The Commission may exercise its discretion to waive a rule where particular facts would make strict compliance inconsistent with the "public interest." Wait Radio v. FCC, 418 F.2d 1153, 1159 (D.C. Cir. 1969), cert denied, 93 S.Ct. 461 (1972).

country and specifically made optional for smaller LECs such as Sully Buttes, a telephone cooperative with operating revenues of less than \$12 million, approximately 11,100 access lines and serving an area with a density of less than 2 subscribers per square mile. The considerations which led the Commission to refrain from imposing price cap regulations on small, rural companies are equally applicable to this situation.¹⁰

The Commission implemented price caps as an incentive to encourage efficiencies and thereby promote competitiveness within the industry. Price cap regulation, however, is applied on a mandatory basis only to the Regional Bell Operating Companies and GTE, in recognition that these companies share similarities which support price cap regulation -- geographic diversity, enormous subscriber bases, high activity levels in both regulated and nonregulated markets, and access to national markets. The Commission specifically targeted the appropriate companies to be regulated under the price cap system: "large, publicly-

¹⁰ See, e.g., In the Matter of Minburn Telecommunications, Inc.; Petition for Waiver of Sections 61.41(c) and (d) of the Commission's Rules, 14 FCC Rcd. 14184 (1999); In the Matter of U S WEST Communications, Inc. and Nemont Telephone Cooperative, Inc. et al., Joint Petition for Waiver of the Definition of "Study Area" contained in Part 36, Appendix-Glossary of the Commission's Rules and Petition for Waiver of Sections 61.41(c) and 69.3(e)(11) of the Commission's Rules, 9 FCC Rcd. 721 (1994); U S WEST Communications, Inc. and South Central Utah Telephone Association, Inc., Joint Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary of the Commission's Rules and South Central Utah Telephone Association, Inc. Petition for Waiver of Sections 61.41(c) of the Commission's Rules, 9 FCC Rcd. 198 (1993); U S WEST Communications, Inc. and Triangle Telephone Cooperative Association, Inc. et al., Joint Petitions for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary of the Commission's Rules and Petitions for Waiver of Sections 61.41(c) and 69.3(e)(11) of the Commission's Rules, 9 FCC Rcd. 202 (1993).

traded firms, that compete daily for sales of nonregulated products and services, in the financial markets, and in the labor markets.”¹¹ Thus, the Commission’s regulatory framework was premised upon its application to companies with a diverse and broad scope of operation.

In refusing to impose price cap regulation universally upon all LECs, the Commission itself acknowledged the potential adverse effects of this regulatory structure when applied to smaller LECs. Noting that small and mid-size companies may have fewer opportunities to achieve cost savings and efficiencies, the Commission acknowledged that these companies are less viable candidates for price caps. In particular, the Commission recognized that a major component of its price cap regime, the productivity factor element, was potentially inapplicable to these types of companies.¹² The Commission concluded that “evidence accumulated in [the price cap] proceeding casts doubt on whether all carriers below the largest eight in size can reasonably attain the productivity goal required by the price cap index.”¹³

Based on the Commission’s policy pronouncements noted above, Sully Buttes is exactly the type of small, rural carrier which the Commission previously found to be an inappropriate candidate for price cap regulation. As indicated, Sully Buttes is a telephone cooperative with less than \$12 million in operating revenues,

¹¹ In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, 5 FCC Rcd. 6786, 6790-91 ¶ 33 (1990) (“Price Cap Order”); see also Order on Reconsideration, 6 FCC Rcd. 2637 (1991), aff’d sub nom., National Rural Telecom As’n v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

¹² See Price Cap Order, 5 FCC Rcd. at 6799 ¶ 103.

¹³ Id. ¶ 104.

approximately 11,100 access lines and fewer than 2 subscribers per square mile. Accordingly, in balancing the benefits to be gained under price cap regulation against the costs which would be incurred by this small, rural LEC, it is clear that the public interest is better served by a grant of the instant waiver request.¹⁴

Finally, the Commission has indicated that its two primary concerns regarding price cap waivers are “cost-shifting between affiliates”¹⁵ and “gaming the system,” i.e., “building up a large rate base under rate of return regulation, then opting for price caps again and cutting its costs to an efficient level.”¹⁶ Neither situation is present here.

¹⁴ Past Commission actions have shown that the Commission is sensitive to minimizing regulatory and administrative burdens upon small LECs. See In the Matter of Regulation of Small Telephone Companies, Report and Order, 2 FCC Rcd. 3811 (1987) (“Small Company Order”), In the Matter of Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, Report and Order, 8 FCC Rcd. 4545, 4548 ¶ 21, 4556 ¶ 76, 4559-60 ¶ 96 (1993) (“Small Company Optional Incentive Order”), pets for recon. denied, pet. for clarification granted, Order on Reconsideration, 12 FCC Rcd. 2259 (1997).

¹⁵ See In the Matter of U S WEST Communications, Inc. and Eagle Telecommunications, Inc. Joint Petition for Waiver of the Definition of “Study Area” Contained in Part 36, Appendix-Glossary of the Commission’s Rules and Eagle Telecommunications, Inc. Petition for Waiver of Section 61.41(c) of the Commission’s Rules, Memorandum Opinion and Order, 10 FCC Rcd. 1771, 1775 ¶¶ 23-24 (footnote omitted) (1995) (“Eagle Decision”), aff’d on recon., Memorandum Opinion and Order on Reconsideration, 12 FCC Rcd. 4664 (1997).

¹⁶ Id. ¶ 23 (footnote omitted). A similar set of criterion also was considered by the Commission’s Accounting and Audits Division. See In the Matter of U S WEST Communications, Inc., Copper Valley Telephone, Inc., Midvale Telephone Exchange, and Table Top Telephone Company Joint Petition for Waiver of the Definition of “Study Area” Contained in Part 36, Appendix-Glossary of the Commission’s Rules and Copper Valley Telephone, Inc., Midvale Telephone Exchange, and Table Top Telephone Company Petition for Waiver of Section 61.41(c) of the Commission’s Rules, Memorandum Opinion and Order, 10 FCC Rcd.

First, Sully Buttes, upon completion of this transaction, will operate the to-be-acquired exchange separate and apart from U S WEST. This transaction culminated as a result of months of negotiations and is an “arms-length” transaction between competent, stand-alone organizations. No ownership, directorate, or management affiliation between Sully Buttes and U S WEST will arise from this transaction. With regard to concerns about “gaming the system,” as operationally distinct entities, it is not possible for U S WEST to gain any economic benefit from a grant of this requested waiver to Sully Buttes. Further, even assuming the possibility exists, the Commission would be in a position to investigate its concerns in a subsequent proceeding because, as the Commission has previously noted, any U S WEST “reacquisition would require a second study area waiver.”¹⁷

As demonstrated herein, Sully Buttes submits that the efficiencies created by the purchase and sale of the Sisseton exchange to Sully Buttes outweighs any concern over “gaming of the system.” Sully Buttes is not affiliated with U S WEST and is not within the class of carrier deemed by the Commission to be a candidate for price cap regulation. Accordingly, in that the public interest would be best served by permitting Sully Buttes to operate the Sisseton exchange under interstate rate of return regulation, Sully Buttes submits that a narrow waiver of the “All or

3373, 3376-77 ¶ 18 (1995) (“Copper Valley”), aff’d on recon., Memorandum Opinion and Order, DA 99-1845, rel. Sep. 9, 1999.

¹⁷ Copper Valley, 10 FCC Rcd. at 3377 ¶ 20.

Nothing” rule, and, subsequently, the “Permanent Choice” rule, is both appropriate and consistent with existing Commission policy.¹⁸

III. **WAIVER OF SECTION 69.3(e)(11), IF NECESSARY AND AS APPROPRIATE, IS REQUESTED IN ORDER TO ALLOW SULLY BUTTES TO UTILIZE THE NATIONAL EXCHANGE CARRIER ASSOCIATION AS ITS TARIFF POOL ADMINISTRATOR**

Sully Buttes plans on utilizing The National Exchange Carrier Association (“NECA”) as its interstate tariff administrator. While it is not altogether clear whether a waiver of Section 69.3(e)(11) is required for Sully Buttes arising from this transaction, Sully Buttes requests a waiver of Section 69.3(e)(11) to the extent that its “common line tariff participation” may be precluded until “the next annual access tariff filing effective date following consummation of the merger or acquisition transaction.”¹⁹

A literal interpretation of Section 69.3(e)(11) would require Sully Buttes to file interstate tariffs, and assume the cost and administrative burden associated therewith, until July 1, 2001. This would be required due to the fact that July 1, 2000 is the “next” effective date of NECA’s “annual access tariff filing,” and this transaction is unlikely to close prior to July 1, 2000. Sully Buttes submits that such a result is clearly not in the public interest.

¹⁸ Sully Buttes is not aware of any instance where the Commission has denied a request for a Price Cap waiver where, as here, a small LEC desires to remain under rate of return regulation. See, e.g., Eagle Decision, 10 FCC Rcd. 1771; Copper Valley, 10 FCC Rcd. 3373.

¹⁹ 47 CFR § 69.3(e)(11).

The Commission established NECA, in part, to ensure that excessive tariffing administrative burdens would not be imposed upon small LECs such as Sully Buttes.²⁰ This burden should not be imposed upon Sully Buttes merely because of this proposed transaction. Rather, resources should be concentrated on the provision of high-quality telecommunications services to the affected rural areas.²¹ Moreover, the financial impact upon the NECA pools that Sully Buttes seeks to join is anticipated to be minimal.²²

Accordingly, since this transaction will not close prior to the time required for Sully Buttes to provide NECA with the proper notice, and in light of the administrative burden that would be placed upon Sully Buttes in the absence of this request, Sully Buttes respectfully requests a waiver of Section 69.3(e)(11) to the extent necessary for it to become a NECA Issuing Carrier and to participate in the NECA pools upon the date of the closing of this acquisition.

IV. THE COMMISSION'S STUDY AREA FREEZE SHOULD BE WAIVED

Part 36 of the Commission's Rules "freezes" the definition of "study area" to the boundaries which were in existence on November 15, 1984.²³ This "freeze" was due, in part, to the Commission's concern over the level of interstate cost recovery

²⁰ See 47 CFR § 69.603.

²¹ See generally, Small Company Order, 2 FCC Rcd. 3811; see also Small Company Optional Incentive Order, 8 FCC Rcd. 4545.

²² The approximate 2,400 access lines in this transaction lines represent an increase of only .02% of the approximate 10.5 million access lines within the NECA common line pool that NECA reported in its 1999 Access Charge Filing.

²³ See 47 CFR Part 36, Appendix--Glossary.

by LECs from the Universal Service Fund (“USF”): “[t]he Commission took that action, in part, to ensure that LECs do not set up high cost exchanges within their existing service territories as separate study areas to maximize high cost support.”²⁴ At the same time, the Commission also recognized that its rules were not aimed at discouraging “the acquisition of high cost exchanges or the expansion of service to cover high cost areas.”²⁵ Indeed, the Commission’s Common Carrier Bureau (“Bureau”) has implemented this policy decision by holding that changes in study areas that “result from the purchase or sale of exchanges in arms-length transactions” “do not conflict” with the concerns prompting the study area freeze.²⁶ The Commission has also established a three-prong test for deciding whether study area waivers should be granted. The Commission should approve such waiver requests if it determines:

[F]irst, that the change will not affect adversely the USF support program;

[S]econd, that the state commission having regulatory authority does not object to the change; and

²⁴ Eagle Decision, 10 FCC Rcd. at 1773 ¶ 10, citing In the Matter of MTS and WATS Market Structure, Amendment of Part 67 of the Commission’s Rules and Establishment of a Joint Board, CC Docket Nos. 78-72 and 80-286, 50 Fed. Reg. 939 (Jan. 8, 1985).

²⁵ In the Matter of MTS and WATS Market Structure, Amendment of Part 67 of the Commission’s Rules and Establishment of a Joint Board, CC Docket Nos. 78-72 and 80-286, 49 Fed. Reg. 48325, 48337 ¶ 65 (Dec. 12, 1984).

²⁶ In the Matter of Contel of the West Petition for Waiver of Section 36.125(f), Sections 36.154(e)(1) and (2), and the Definition of “Study Area” contained in Part 36, Appendix-Glossary, of the Commission’s Rules, Oregon-Idaho Utilities, Inc., Petition for Waiver of the Definition of “Study Area” contained in Part 36, Appendix-Glossary, of the Commission’s Rules, Memorandum Opinion and Order, 5 FCC Rcd. 4570, 4571 ¶ 9 (1990) (emphasis added).

[F]inally, that the public interest supports grant of the waiver.²⁷

As demonstrated herein, the overall concern prompting the “freeze” in study areas is not an issue in this transaction, and the Commission’s three-prong test will be satisfied. Accordingly, U S WEST and Sully Buttes respectfully request that the Commission grant the study area waiver permitting: (1) U S WEST to remove the Sisseton exchange from its South Dakota study area; and (2) the affiliation of this exchange with Sully Buttes’ existing South Dakota study area.

A. The USF Impact Arising From This Transaction

Since, pursuant to the current Commission rules, carriers purchasing high-cost exchanges can only receive the same level of support per line as the seller received prior to the sale, there can, by definition, be no USF impact in these transactions. Sully Buttes will receive the same amount of support as U S WEST currently receives in this South Dakota exchange. Accordingly, at this time, this transaction is a non-event for purposes of the USF.²⁸

B. The South Dakota State Commission Does Not Object To The Proposed Change In Study Area Boundaries

²⁷ See Eagle Decision, 10 FCC Rcd. at 1772 ¶ 5 (footnotes omitted).

²⁸ In the Matter of Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd. 8776, 8942-943 ¶ 308 (1997); aff’d, rev’d and remanded in part sub nom. Texas Office of Public Utility Counsel v. FCC, 183 F.3d 393 (5th Cir. 1999); pets. for reh’g. and reh’g. en banc denied, Sep. 28, 1999, mandate issued Nov. 2, 1999.

On May 23, 2000, the South Dakota Public Utilities Commission (“South Dakota PUC”) issued an Order²⁹ that stated it does not object to the granting of any required study area waivers by the Commission.

C. The Public Interest Will Be Served By Grant Of
The “Study Area” Waivers Requested Herein

According to South Dakota PUC findings,

[Sully Buttes’] purchase of the Sisseton exchange is in the public interest of the customers within the exchange for the following reasons:

- a. Quality local service will be maintained, if not improved.
- b. Customer service in the exchange, as provided by [Sully Buttes], should be improved.
- c. The customers in the Sisseton exchange should receive better service, and the cost of maintenance and repair should be reduced.
- d. Rates will not increase as a result of the sale for at least 18 months.
- e. [Sully Buttes] will assist the county in providing 911 services, when requested.
- f. Modern state-of-the-art telecommunications equipment will be used to provide service in the Sisseton exchange.³⁰

Sully Buttes has provided a description of the to-be-acquired service area, as well as its proposed operations and upgrades in the to-be-acquired exchange.³¹

Moreover, Sully Buttes and U S WEST have fully provided the information

²⁹ Before the Public Utilities Commission of the State of South Dakota, In the Matter of the Sale by U S WEST Communications, Inc. of the Sisseton Telephone Exchange to Venture Communications, Inc. and Sully Buttes Telephone Cooperative, Inc., Findings of Fact and Conclusions of Law; Notice of Entry of Order TC99-112, dated May 23, 2000 (“South Dakota PUC Order”).

³⁰ Id. at 3.

³¹ See Attachments.

associated with their respective portions of the transaction as recommended by the Bureau.³²

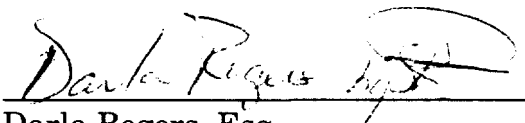
In light of the above, U S WEST and Sully Buttes believe that the public interest would best be served by the granting of the study area waivers requested herein.

V. CONCLUSION

For the reasons stated herein, U S WEST and Sully Buttes respectfully request that the Commission expeditiously review and approve this Petition. This Petition raises no new issues of law, is supported by Commission precedent and the facts involved in this Petition clearly demonstrate that the public interest will be served by such an expeditious grant. U S WEST and Sully Buttes respectfully submit that an expeditious grant of this Petition will serve the public interest by affording the residents and business customers of these rural exchanges the benefits of the planned transfers.


Respectfully submitted,

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³² See Public Notice, Common Carrier Bureau Establishes Expedited Processing Procedures for Petitioners Seeking Part 36 Study Area Waivers, 10 FCC Rcd. 13228 (1995) ("Study Area Public Notice"). The Acquiring Company's specific information requested by the Study Area Public Notice is provided herein as Attachment A.

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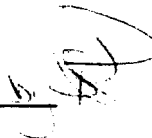
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June 2, 2000

ATTACHMENT A

RESPONSE OF U S WEST COMMUNICATIONS, INC. ("U S WEST") AND SULLY BUTTES TELEPHONE COOPERATIVE, INC. ("SULLY BUTTES") TO THE COMMON CARRIER BUREAU'S LIST OF INFORMATION TO ACCOMPANY STUDY AREA WAIVER REQUESTS

1. A copy of the order, or other certified document, that states that the state telecommunications regulatory authority does not object to the requested study area waiver.

Response:

See Appendix A.

2. A copy of any order adopted by, or plan imposed by a state commission that obligates the selling and/or purchasing local exchange carrier ("LEC") to upgrade or extend existing service.

Response:

There is no applicable state commission order or plan that creates an obligation on U S WEST or Sully Buttes to upgrade or extend existing service.

3. A statement by the purchaser of all planned upgrades to the facilities being acquired with estimates of the costs of those upgrades. That statement should include detailed descriptions of all planned upgrades and extensions of service, the costs of the planned upgrades and extensions of service, proposed timetables for any upgrades, proposed timetables for extension of service, and construction and investment plans.

Response:

Sully Buttes plans upgrades at a cost of \$500,000 in year one and \$500,000 in year two to replace a switch and add toll fiber.

4. The numerical effects of the proposed transaction on the Universal Service Fund ("USF"). To isolate those effects, estimates should be provided of the seller's and purchaser's USF draw (*i.e.*, receipts from the USF administrator) as if the transferred exchanges (and, in the case of the seller, the remaining exchanges) were set up as a separate study area before and after the planned upgrades. Complete

copies of all studies performed in estimating these effects should be included. The studies should be accompanied by an explanation of the extent to which the studies include, and exclude, the effects of any state-orders, or buyer-planned upgrades and/or extensions of service.

Response:

U S WEST currently receives no USF in the South Dakota study area and after the sale of the proposed exchange will receive no USF.

Under current FCC rules, Sully Buttes will not receive any additional USF support for the exchange it's acquiring from U S WEST.

5. If the proposed transaction will increase USF draw of either the seller or the purchaser, the extent to which local ratepayers will assume the costs of planned upgrades and the extent to which local ratepayers will assume the costs of planned extensions of service.

Response:

The proposed transaction will not increase the USF draw under current rules.

6. All accounting entries, using actual dollar amounts, if known, and estimated dollar amounts if not known, that the seller and purchaser intend to use to record the transaction for accounting purposes.

Response:

Please refer to Appendix B for an illustration of the accounting entries both U S WEST and Sully Buttes plan to use for the contemplated transaction.

7. The buyer's plan for disposition of amounts recorded in Account 32.2005, Telecommunications Plant Adjustment, related to the purchase.

Response:

Sully Buttes does not intend to request permission to record amortization of amounts in Account 32.2005, Telecommunications Plant Adjustment to Account 6565, Amortization Expense - Other.

8. A schedule, prepared by the seller, of the plant being sold that includes: the gross book value, accumulated depreciation, and dates of installation of the plant that is subject to the transaction.

Response:

The age distribution of the plant by account is included in Appendix C.

9. The interstate separations factors applicable to the seller's remaining plant, and the interstate separation factors that will be applicable to the transferred plant when acquired by the purchaser.

Response:

For U S WEST, the 1998 interstate ratio of Dial Equipment Minutes for South Dakota prior to the sale is 15.23%; for the exchange being sold to Sully Buttes is 15.86%, and for the remaining South Dakota exchanges is 15.23%. The 1999 Subscriber Plant Factor is 0.25.

For Sully Buttes, the 1998 interstate ratio of Dial Equipment Minutes prior to the sale is 18.15%. The 1999 Subscriber Plant Factor is 0.25

10. Pro-forma revenue requirement calculations (interstate, intrastate and total), pre-sale and post-sale, for both the buying and selling LECs.

Response:

U S WEST's accounting system does not track financial results on an exchange basis. These amounts are based on a current estimate of the book value of the assets and U S WEST cost estimates. Certain cost estimates are the result of allocations among the exchanges. Assets do not include additional investments, retirements, depreciation or adjustments which will be made in the period interim to the sale closing. These estimates do not represent complete costs which will be appropriately determined by the buyer. U S WEST's estimated 1999 Interstate Revenue Requirement for the exchange being sold to Sully Buttes is calculated as follows:

**Total State Revenue Requirement
Analysis is "pre-Sale"**

*Estimates based on 1999 Results

	Intrastate	Interstate	Combined
Average Net Investment (Rate Base)	142,644,000	69,753,000	212,397,000
Return on Investment	16,974,636	7,847,213	24,821,849
Operating Expense	91,766,000	36,171,000	127,937,000
Total Taxes	6,679,266	3,073,114	9,752,380
Total Revenue Requirement	115,419,902	47,091,327	162,511,228

**Revenue Requirement Analysis of Rural
Exchanges to be Sold**

Based on 1999 Results

Average Net Investment (Rate Base)	1,939,985	886,902	2,826,887
Return on Investment	230,858	99,777	330,635
Operating Expense	862,145	374,167	1,236,312
Total Taxes	91,111	37,932	129,043
Total Revenue Requirement	1,184,115	511,875	1,695,990

**Total Sales Revenue Requirement
Analysis "Post Sale"**

Estimated 1999 "Post Sale" Results

Average Net Investment (Rate Base)	140,704,015	68,866,098	209,570,113
Return on Investment	16,743,778	7,747,436	24,491,214
Operating Expense	90,903,855	35,796,833	126,700,688
Total Taxes	6,588,154	3,035,182	9,623,337
Total Revenue Requirements	114,235,787	46,579,452	160,815,238

*South Dakota currently does not have rate of return regulation and the resulting revenue requirement calculation on Intrastate operations. Intrastate estimates provided are based on 1999 results and the last applicable Intrastate ROR of 11.9%.

Sully Buttes – South Dakota
FCC Filing
Revenue Requirement Summary

<u>Description</u>	<u>Intrastate</u>	<u>Interstate</u>	<u>Combined</u>
<u>2,000 Pre-Sale:</u>			
Average Net Investment (Rate Base)	\$8,631,843	\$8,040,359	16,672,202
Return on Investment	839,894	879,519	1,719,413
Operating Expense	2,167,755	2,143,910	4,311,665
Total Taxes	130,435	137,075	267,510
Total Revenue Requirement	\$3,138,084	\$3,160,504	\$6,298,588

Estimated Post Sale:

Average Net Investment (Rate Base)	\$10,571,828	\$8,927,261	19,499,089
Return on Investment	1,070,752	979,296	2,050,048
Operating Expense	3,029,900	2,518,077	5,547,977
Total Taxes	221,546	175,007	396,553
Total Revenue Requirement	\$4,322,199	\$3,672,379	\$7,994,578

11. The number of access lines: (i) presently provided in the seller's study area; (ii) presently provided by the purchaser in each study area in that state; and (iii) that will be transferred.

Response:

U S WEST has approximately 275,000 access lines in the state of South Dakota. Sully Buttes has approximately 11,100 access lines in the state of South Dakota. Approximately 2,400 access lines are being transferred to Sully Buttes as a result of the proposed transaction.

12. A map on which each of the following areas has been clearly outlined: (i) the service areas of the exchanges being transferred; (ii) the pre-transfer study area boundaries of the seller; and (iii) the study area boundaries of all study areas that the purchaser (and/or its affiliates) own in the state in which the exchanges are to be transferred are located.

Response:

See Appendix D.